

Higher Education Act of 1965, as amended (HEA)

Proposals to Extend and Reauthorize

The fiscal year 2005 budget reflects President Bush's commitment to equal access to a quality postsecondary education for all Americans. The request includes a number of proposals that would increase funding for the Federal Pell Grant Program, make college more affordable for students and their families, and strengthen the financial stability of the student loan programs. In particular, the proposals made to extend and reauthorize HEA would bring about a number of improvements, including the following:

- Creation of a new initiative within Pell Grants for high school students completing a State Scholars program;
- Creation of an equitable funding formula for the campus-based programs and a set-aside for funding community service in the Federal Work-Study Program;
- Expansion of college and university options for offering courses and programs online; and
- Offer of a broad package of student benefits and program improvements in the student loan programs.

Pell Grants

Enhanced Pell Grants for State Scholars. This proposal, which is part of the President's *Jobs for the 21st Century* initiative, would encourage States to offer and students to take demanding high school courses. Currently, 14 states participate in the State Scholars program (www.centerforstatescholars.org), which entails completing a demanding curriculum in high school in preparation for technical school, community college, university, or work. Students who complete a rigorous curriculum (with at least three years of mathematics and science, as well as four years of English and social studies, and courses in foreign languages) are more successful in pursuing and completing further education. In particular, this proposal would increase Pell Grants by up to \$1,000 for students who have completed the State Scholars curriculum in high school. If recipients qualify for more than the available funding for the initiative, a process will be developed to allocate awards within the available funding level.

Campus-Based Programs

Funding Allocation Formula. The Supplemental Educational Opportunity Grant, Work-Study, and Perkins Loan programs are collectively referred to as the "campus-based" programs; grants in these programs are made directly to participating institutions, which have considerable flexibility to package awards to best meet the needs of their students.

The current statutory formulas allocating campus-based funding have historically distributed a disproportionate share of funding to schools that have participated in the program the longest. The Administration's Program Assessment Rating Tool (PART) has identified these formulas as inequitable. Accordingly, the request proposes to phase in revised allocation formulas beginning in 2005.

Community Service. Institutions are encouraged to use Work-Study funds to promote community service activities. Institutions must use at least 7 percent of their Work-Study allocations to support students working in community service jobs, and such activities must include at least one reading tutor or family literacy project. In addition, the Department waives the 25 percent employer-matching requirement for students who work as reading or math tutors.

The Administration is proposing to replace the 7 percent community service requirement with a separate set-aside for community service, equal to 20 percent of the Work-Study appropriation. The Program Assessment Rating Tool found that while institutions placed an average of 15 percent of their students in community service jobs, many institutions (including many "elite" colleges and universities) do not meet even the 7 percent requirement. Schools would apply for community service funds separately from their regular allocation.

Federal Family Education Loan and Direct Loan Programs

These proposals are intended to make college more affordable for students and their families and to strengthen the financial stability of the student loan programs. In particular, these reforms would:

- Increase loan forgiveness for mathematics, science, and special education teachers serving poor communities;
- Reduce interest rates for most borrowers, under the current interest rate environment, by retaining the variable interest rate structure after July 1, 2006;

- Increase loan limits for first-year students from \$2,625 to \$3,000. The current loan limits have remained essentially unchanged since the early 1970s;
- Broaden the availability of extended repayment options;
- Phase out higher special allowance payments for loans funded with the proceeds of certain tax-exempt securities;
- Allow low-default schools more flexibility in disbursing loan funds;
- Strengthen the financial stability of the FFEL system by requiring guaranty agencies to collect the currently optional 1 percent insurance premium on all loans guaranteed or disbursed after October 1, 2004;
- Exempt institutions with cohort default rates of less than 10 percent from requirements to delay initial disbursements to first-year students and to disburse all loans in at least two separate disbursements; and
- Reserve \$3 billion for unspecified further student benefits. These additional proposals—which could include reduced fees, default prevention activities, or additional loan limit increases—will be developed in consultation with Congress as part of the HEA reauthorization process.

General Provisions

The Administration also proposes to clarify that student aid applicants who have been convicted of a drug-related offense are only ineligible for Federal student aid if the offense was committed while they were attending school.

The Administration also expects to develop a proposal for the expansion of courses and program offerings on line in consultation with Congress as part of the HEA reauthorization process.